



Naledi Local Municipality
Annual Financial Statements
for the year ended 30 June 2014

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Government
Mayoral committee	
Executive Mayor	Ms. Mahase M
Chief Whip	Mr. Tladi GM
Speaker	Ms. Mahase M
Councillors	Mr. Haddad MG Mr. Mahloko MD Mr. Makitle J Mr. Rakhunoane K Ms. Sehloho ML Mr. Seoko MM
Municipal demarcation code	FS164
Grading of local authority	Grade 1
Capacity of local authority	Low capacity
Chief Finance Officer (CFO)	Mr. Moses T
Accounting Officer	Mr. Lefora QW
Registered office	Municipal Offices 13 Brand Street Dewetsdorp 9940
Business address	Municipal Offices 13 Brand Street Dewetsdorp 9940
Postal address	Private Bag X1 Dewetsdorp 9940
Bankers	ABSA FNB
Auditors	Auditor-General of South Africa
Lawyers	Bahlekazi Attorneys Carrol en Vennote Mabalane Attorneys
Relevant Legislation	Municipal Finance Management Act

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 90, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014.

Accounting Officer
Mr. Lefora QW

Dewetsdorp
31 August 2014

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Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2014.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 number of meetings were held. The audit committee members are appointed for a period of 3 years.

Name of member	Number of meetings attended
Mr. Segalo M (Chairperson)	4
Me. Molele T	0
Mr. Rapulungoane	1
Mr. Vapi V	4

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Mr. Segalo M (Chairperson)

Date: _____

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Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Inventories	3	81 007	49 787
Receivables from non-exchange transactions		27 620	154 886
Consumer receivables from non-exchange transactions	4	1 059 773	3 603 621
VAT receivable	5	1 201 997	593 546
Consumer receivables from exchange transactions	6	2 356 746	12 517 809
Cash and cash equivalents	7	4 421 293	1 441 224
		9 148 436	18 360 873
Non-Current Assets			
Investment property	8	1 090 000	2 520 000
Property, plant and equipment	9	289 833 467	290 855 153
Intangible assets	10	311 040	311 040
Other financial assets	11	98 010	73 490
		291 332 517	293 759 683
Total Assets		300 480 953	312 120 556
Liabilities			
Current Liabilities			
Employee benefit obligation	12	275 000	166 964
Unspent conditional grants and receipts	13	4 057 363	112 523
Other financial liabilities	14	108 475	113 845
Provisions	15	12 132 031	11 425 523
Payables from exchange transactions	16	25 354 560	30 502 337
Consumer deposits	17	568 828	560 683
		42 496 257	42 881 875
Non-Current Liabilities			
Employee benefit obligation	12	2 757 000	2 569 036
Other financial liabilities	14	201 115	309 591
		2 958 115	2 878 627
Total Liabilities		45 454 372	45 760 502
Net Assets		255 026 581	266 360 054
Accumulated surplus		255 026 581	266 360 054

* See Note 41

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Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	26 283 300	24 267 023
Interest received - investment	22	121 612	258 982
Dividends received	22	3 263	3 061
Rental of facilities and equipment	24	361 655	318 711
Other income	25	227 096	1 611 639
Discount received	48	8 167 510	-
Total revenue from exchange transactions		35 164 436	26 459 416
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	3 495 164	3 870 194
Transfer revenue			
Government grants and subsidies	21	65 741 682	58 552 272
Public contributions and donations	23	1 245 936	2 203 663
Total revenue from non-exchange transactions		70 482 782	64 626 129
Total revenue	18	105 647 218	91 085 545
Expenditure			
Personnel	26	26 775 316	23 706 984
Remuneration of councillors	27	1 965 546	1 926 753
Depreciation	28	16 960 904	18 348 034
Impairment loss	29	23 905 816	3 207 871
Finance costs	30	1 550 605	2 107 485
Repairs and maintenance	31	2 271 984	3 031 844
Bulk purchases	32	20 881 290	20 261 829
General expenses	33	21 167 982	15 343 638
Total expenditure		115 479 443	87 934 438
Operating (deficit) surplus		(9 832 225)	3 151 107
Loss on disposal of assets and liabilities	9	-	373 379
Actuarial loss	12	95 769	268 200
Fair value loss	35	1 405 480	-
		(1 501 249)	(641 579)
(Deficit) surplus for the year		(11 333 474)	2 509 528

* See Note 41

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	251 463 156	251 463 156
Adjustments		
Correction of errors (refer to note 41)	12 387 371	12 387 371
Balance at 01 July 2012 as restated*	263 850 526	263 850 526
Changes in net assets		
Surplus for the year	2 509 528	2 509 528
Total changes	2 509 528	2 509 528
Opening balance as previously reported	260 065 676	260 065 676
Adjustments		
Correction of errors (refer to note 41)	6 294 379	6 294 379
Balance at 01 July, 2013 as restated*	266 360 055	266 360 055
Changes in net assets		
Surplus for the year	(11 333 474)	(11 333 474)
Total changes	(11 333 474)	(11 333 474)
Balance at 30 June 2014	255 026 581	255 026 581

* See Note 41

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Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		18 286 158	28 260 286
Grants		69 686 522	55 095 960
Interest income		121 612	258 982
Dividends received		3 263	3 061
Other receipts		1 834 687	4 134 013
		<u>89 932 242</u>	<u>87 752 302</u>
Payments			
Employee costs		(28 750 631)	(25 446 938)
Suppliers		(40 618 100)	(33 839 787)
Finance costs		(1 340 605)	(2 107 484)
		<u>(70 709 336)</u>	<u>(61 394 209)</u>
Net cash flows from operating activities	37	<u>19 222 906</u>	<u>26 358 093</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(16 128 991)	(30 987 844)
Other financial assets		-	(14 240)
Net cash flows from investing activities		<u>(16 128 991)</u>	<u>(31 002 084)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(113 846)	(113 844)
Finance lease payments		-	(446 568)
Net cash flows from financing activities		<u>(113 846)</u>	<u>(560 412)</u>
Net increase/(decrease) in cash and cash equivalents		2 980 069	(5 204 403)
Cash and cash equivalents at the beginning of the year		1 441 224	6 645 627
Cash and cash equivalents at the end of the year	7	<u>4 421 293</u>	<u>1 441 224</u>

* See Note 41

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Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 51)
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	33 303 000	-	33 303 000	26 283 300	(7 019 700)	X1
Rental of facilities and equipment	329 000	-	329 000	361 655	32 655	X2
Discount received	-	-	-	8 167 510	8 167 510	X3
Other revenue	7 885 000	(2 164 000)	5 721 000	226 175	(5 494 825)	X4
Interest received - investment	136 000	(67 000)	69 000	121 612	52 612	X5
Dividends received	5 000	-	5 000	3 263	(1 737)	X6
Total revenue from exchange transactions	41 658 000	(2 231 000)	39 427 000	35 163 515	(4 263 485)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 272 000	468	4 272 000	3 495 164	(776 836)	X7
Fines	7 000	(5 000)	2 000	921	(1 079)	X8
Government grants and subsidies	40 740 000	1 000 000	41 740 000	46 459 524	4 719 524	X9
Transfer revenue						
Public contributions and donations	-	-	-	1 245 936	1 245 936	
Capital transfer and grants	28 919 000	(12 543 000)	16 376 000	19 282 158	2 906 158	X10
Total revenue from non-exchange transactions	73 938 000	(11 547 532)	62 390 000	70 483 703	8 093 703	
Total revenue	115 596 000	(13 778 532)	101 817 000	105 647 218	3 830 218	
Expenditure						
Personnel	(27 843 000)	(3 143 000)	(30 986 000)	(26 775 316)	4 210 684	X11
Remuneration of councillors	(1 818 000)	(166 000)	(1 984 000)	(1 965 546)	18 454	
Transfer payments	-	(955 000)	(955 000)	-	955 000	X12
Depreciation and amortisation	(1 500 000)	-	(1 500 000)	(16 960 904)	(15 460 904)	X13
Impairment loss	(5 000 000)	-	(5 000 000)	(23 905 816)	(18 905 816)	X14
Finance costs	(55 000)	6 000	(49 000)	(1 550 605)	(1 501 605)	X15
Bulk purchases	(32 170 000)	2 571 000	(29 599 000)	(20 881 290)	8 717 710	X16
General expenses	(17 967 000)	2 604 000	(15 363 000)	(23 439 966)	(8 076 966)	X17
Total expenditure	(86 353 000)	917 000	(85 436 000)	(115 479 443)	(30 043 443)	
Operating deficit	29 243 000	(12 861 532)	16 381 468	(9 832 225)	(26 213 693)	
Fair value adjustments	-	-	-	(1 405 480)	(1 405 480)	X18
Actuarial (gain) / loss	-	-	-	95 769	95 769	X19
	-	-	-	(1 501 249)	(1 501 249)	
Deficit	29 243 000	(12 861 532)	16 381 468	(11 333 474)	(27 714 942)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	29 243 000	(12 861 532)	16 381 468	(11 333 474)	(27 714 942)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 51)
Figures in Rand						

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	4 272 000	-	4 272 000	-		4 272 000	3 495 164		(776 836)	82 %	82 %
Service charges - electricity	22 841 000	-	22 841 000	-		22 841 000	15 458 225		(7 382 775)	68 %	68 %
Service charges - water	4 084 000	-	4 084 000	-		4 084 000	5 098 200		1 014 200	125 %	125 %
Service charges - sanitation revenue	3 790 000	-	3 790 000	-		3 790 000	3 454 459		(335 541)	91 %	91 %
Service charges - refuse removal	2 588 000	-	2 588 000	-		2 588 000	2 272 416		(315 584)	88 %	88 %
Rental of facilities and equipment	329 000	-	329 000	-		329 000	361 655		32 655	110 %	110 %
Interest earned	136 000	(67 000)	69 000	-		69 000	121 612		52 612	176 %	89 %
Dividends received	5 000	-	5 000	-		5 000	3 263		(1 737)	65 %	65 %
Fines	7 000	(5 000)	2 000	-		2 000	-		(2 000)	- %	- %
Grant income (operational)	40 740 000	1 000 000	41 740 000	-		41 740 000	46 459 524		4 719 524	111 %	114 %
Other own revenue	7 885 000	(2 164 000)	5 721 000	-		5 721 000	8 780 781		3 059 781	153 %	111 %
Total revenue (excluding capital transfers and contributions)	86 677 000	(1 236 000)	85 441 000	-		85 441 000	85 505 299		64 299	100 %	99 %
Employee costs	(27 843 000)	(3 143 000)	(30 986 000)	-	-	(30 986 000)	(26 775 316)	-	4 210 684	86 %	96 %
Remuneration of councillors	(1 818 000)	(166 000)	(1 984 000)	-	-	(1 984 000)	(1 965 546)	-	18 454	99 %	108 %
Debt impairment	(5 000 000)	-	(5 000 000)			(5 000 000)	-	-	5 000 000	- %	- %
Depreciation and asset impairment	(1 500 000)	-	(1 500 000)			(1 500 000)	(40 866 720)	-	(39 366 720)	2 724 %	2 724 %
Finance charges	(55 000)	6 000	(49 000)	-	-	(49 000)	(1 550 605)	-	(1 501 605)	3 165 %	2 819 %
Bulk purchases	(32 170 000)	2 571 000	(29 599 000)	-	-	(29 599 000)	(20 881 290)	-	8 717 710	71 %	65 %
Contracted services	(2 530 000)	681 000	(1 849 000)	-	-	(1 849 000)	-	-	1 849 000	- %	- %

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfer and grants	-	(955 000)	(955 000)	-	-	(955 000)	-	-	955 000	- %	DIV/0 %
Other expenditure	(15 437 000)	1 923 000	(13 514 000)	-	-	(13 514 000)	(24 232 185)	-	(10 718 185)	179 %	157 %
Total expenditure	(86 353 000)	917 000	(85 436 000)	-	-	(85 436 000)	(116 271 662)	-	(30 835 662)	136 %	135 %
Surplus/(Deficit)	324 000	(319 000)	5 000	-		5 000	(30 766 363)		(30 771 363)	615 327 %	(9 496) %
Transfers recognised - capital	29 338 000	(13 442 000)	15 896 000	-		15 896 000	19 282 158		3 386 158	121 %	66 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1 245 936		1 245 936	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	29 662 000	(13 761 000)	15 901 000	-		15 901 000	(10 238 269)		(26 139 269)	(64) %	(35) %
Surplus/(Deficit) for the year	29 662 000	(13 761 000)	15 901 000	-		15 901 000	(10 238 269)		(26 139 269)	(64) %	(35) %

Capital expenditure and funds sources

Total capital expenditure	29 338 000	(13 442 000)	15 896 000	-		15 896 000	(16 126 604)		(32 022 604)	(101) %	(55) %
Sources of capital funds											
National Government	21 385 000	(5 574 000)	15 811 000	-		15 811 000	-		(15 811 000)	- %	- %
Provincial Government	7 850 000	(7 850 000)	-	-		-	-		-	DIV/0 %	- %
Internally generated funds	103 000	(18 000)	85 000	-		85 000	-		(85 000)	- %	- %
Total sources of capital funds	29 338 000	(13 442 000)	15 896 000	-		15 896 000	-		(15 896 000)	- %	- %

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	21 338 000	(14 940 000)	6 398 000	-		6 398 000	19 222 906		12 824 906	300 %	90 %
Net cash from (used) investing	29 338 000	(40 540 000)	(11 202 000)	-		(11 202 000)	(16 128 991)		(4 926 991)	144 %	(55)%
Net cash from (used) financing	-	(400 000)	(400 000)	-		(400 000)	(113 846)		286 154	28 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	50 676 000	(55 880 000)	(5 204 000)	-		(5 204 000)	2 980 069		8 184 069	(57)%	6 %
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	1 441 224		1 441 224	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	50 676 000	(55 880 000)	(5 204 000)	-		(5 204 000)	4 421 293		(9 625 293)	(85)%	9 %

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

Effective interest rate

The municipality used the government bond rate to discount future cash flows.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Naledi Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 years
Community assets	10 - 30 years
Infrastructure assets	5 - 30 years
Other property, plant and equipment	3 - 15 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Naledi Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as decommissioning, restoration and similar liabilities. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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Accounting Policies

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses, but due to the nature of the intangible assets it is highly unlikely that any amortisation or impairment will be incurred during the life span of the asset.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis to their estimated residual values, as follows:

Item	Useful life
Servitudes	Indefinite

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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Accounting Policies

1.8 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at fair value.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Naledi Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

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Accounting Policies

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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Accounting Policies

1.11 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.15 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Collection charges and penalties

Collection charges and penalty interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

Fines

Fines constitute both fines and summonses for which revenue is recognised when payment is received.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note for detail.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.23 Accumulated surplus

The accumulated surplus/deficit represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.24 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.26 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.29 Value-added tax (VAT)

The municipality accounts for value-added tax (VAT) on the payment basis.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
 - all short-term employee benefits;
 - short-term compensated absences;
 - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this standard (GRAP 25) and IAS 19(R) is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is not material.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a standard of GRAP would otherwise require or permit to be measured at fair value is no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Amendments were made to measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 27 and GRAP 31 (as revised 2012)

These Standards of GRAP replace the previous Standard of GRAP on Agriculture (GRAP 101) and Standard of GRAP on Intangible Assets due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27) and Intangible Assets (IPSAS 31) respectively.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation now addresses the manner in which the municipality applies the probability test on initial recognition of both:

- (a) exchange revenue (GRAP 9); and
- (b) non-exchange revenue (GRAP 23).

All amendments to be applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 16: Intangible Assets - Website Costs

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

If the municipality is not able to demonstrate how a website developed solely and primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

Interpretation to be applied retrospectively.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the the Minister and its effective date is 1 April 2015.

The municipality expects to adopt the standard for the first time once it become effective.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The standard has been approved by the the Minister and its effective date is 1 April 2015.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the the Minister and its effective date is 1 April 2015.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 100 (revised 2013): Discontinued Operations

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) applies this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favorable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
3. Inventories		
Consumable stores	68 852	40 429
Water	12 155	9 358
	81 007	49 787
Consumables recognised as an expense during the year	52 260	107 590
Water purchases (bulk) recognised as an expense during the year	5 396 249	4 965 018
In the prior year inventories were written down to net realisable value, due to the age and condition of the inventory.		
Inventory pledged as security		
None of the inventory were pledged as security.		
4. Consumer receivables from non-exchange transactions		
Property rates	8 542 408	7 554 541
Less: Allowance for impairment loss	(7 482 635)	(3 950 920)
	1 059 773	3 603 621
Property rates: Gross balance		
Current	88 566	100 727
31 - 60 days	73 600	91 962
61 - 90 days	70 601	90 881
91 - 120 days	67 389	78 679
> 120 days	8 242 252	7 192 292
	8 542 408	7 554 541
Property rates: Allowance for impairment loss		
Balance	(7 482 635)	(3 950 920)
Consumer receivables from non-exchange transactions pledged as security		
Consumer receivables from non-exchange transactions were not pledged as security.		
Credit quality of consumer receivables from non-exchange transactions		
The credit quality of consumer receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.		
None of the financial assets that are fully performing have been renegotiated in the last year.		
Consumer receivables from non-exchange transactions past due but not impaired		
All of the amounts past due was impaired.		
Reconciliation of allowance for impairment loss		
Opening balance	3 950 920	4 337 960
Allowance for impairment loss	3 531 715	-
Unused amounts reversed	-	(387 040)
	7 482 635	3 950 920

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
5. VAT		
VAT receivable	4 994 815	3 734 505
VAT payable	(3 792 818)	(3 140 955)
	1 201 997	593 550
The municipality is registered on the payment basis for VAT.		
6. Receivables from exchange transactions		
Gross balances		
Electricity	2 699 746	2 141 075
Water	16 250 958	11 598 595
Sewerage	11 162 131	8 660 245
Refuse	8 532 989	6 597 460
Sundry services	2 467 916	2 400 542
	41 113 740	31 397 917
Less: Allowance for impairment		
Impairment total	(38 756 994)	(18 880 108)
Net balance		
Receivables from exchange transactions	2 356 746	12 517 809
Electricity		
Current (0 -30 days)	394 119	312 562
31 - 60 days	188 116	149 188
61 - 90 days	93 900	74 469
>90 days	2 023 611	1 604 856
	2 699 746	2 141 075
Water		
Current (0 -30 days)	1 108 980	595 547
31 - 60 days	450 158	419 147
61 - 90 days	437 527	442 429
91 - 120 days	330 251	361 230
> 120 days	13 924 042	9 780 242
	16 250 958	11 598 595
Sewerage		
Current (0 -30 days)	276 624	267 579
31 - 60 days	261 057	261 988
61 - 90 days	257 939	254 478
91 - 120 days	256 689	244 916
> 120 days	10 109 822	7 631 284
	11 162 131	8 660 245
Refuse		
Current (0 -30 days)	189 268	181 885
31 - 60 days	181 870	179 762
61 - 90 days	179 533	177 635
91 - 120 days	178 591	173 459
> 120 days	7 803 727	5 884 719
	8 532 989	6 597 460

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Receivables from exchange transactions (continued)		
Sundries		
Current (0 -30 days)	15 099	15 438
31 - 60 days	10 080	11 332
61 - 90 days	10 080	11 327
91 - 120 days	9 390	10 050
>120 days	2 423 267	2 352 395
	2 467 916	2 400 542
Summary of receivables by customer classification		
Domestic		
Current (0 -30 days)	962 919	890 808
31 - 60 days	1 043 443	922 141
61 - 90 days	1 019 262	951 946
91 - 120 days	894 594	873 095
> 120 days	42 459 227	32 004 963
	46 379 445	35 642 953
Less: Allowance for impairment	(43 299 386)	(18 986 323)
	3 080 059	16 656 630
Business and farms		
Current (0 -30 days)	25 123	20 007
31 - 60 days	15 333	1 142
61 - 90 days	15 336	(37 139)
91 - 120 days	13 563	(11 916)
>120 days	3 312 400	2 265 080
	3 381 755	2 237 174
Less: Allowance for impairment	(3 247 690)	(2 090 483)
	134 065	146 691
National and provincial government		
Current (0 -30 days)	60 820	(48 541)
31 - 60 days	43 090	(22 509)
61 - 90 days	41 682	(23 885)
91 - 120 days	41 396	(177 549)
> 120 days	1 632 585	2 718 378
	1 819 573	2 445 894
Less: Allowance for impairment		
Balance	(38 756 994)	(18 880 108)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(18 880 108)	(44 766 522)
Contributions to allowance	(19 876 886)	-
Reversal of allowance	-	25 886 414
	(38 756 994)	(18 880 108)
Consumer receivables pledged as security		
None of the consumer receivables were pledged as security.		

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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6. Receivables from exchange transactions (continued)

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

Receivables from exchange transactions past due but not impaired

All receivables from exchange transactions are considered for impairment.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	4 391 876	1 413 249
Short-term deposits	29 417	27 975
	4 421 293	1 441 224

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA Bank - Current account - 406 653 1831	3 429 074	657 264	4 574 623	3 429 074	657 264	4 574 623
ABSA Bank - Current account - 186 027 0184	873 375	602 539	2 044 483	873 375	602 539	2 044 483
ABSA Bank - Short term deposit - 906 109 3425	29 417	27 975	26 753	29 417	27 975	26 521
FNB - Current account - 624 019 56729	106 630	153 447	-	95 940	153 447	-
Total	4 438 496	1 441 225	6 645 859	4 427 806	1 441 225	6 645 627

Pledged as security

None of these assets were pledge as security.

8. Investment property

	2014			2013		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 090 000	-	1 090 000	2 520 000	-	2 520 000

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Investment property	2 520 000	(1 430 000)	1 090 000

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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8. Investment property (continued)

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	2 520 000	2 520 000

Pledged as security

None of these assets were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of property

Dwelling 278

On erven 278 in Wepener

- Opening balance	510 000	510 000
- Fair value adjustments	(270 000)	-
	240 000	510 000

The cost price of the asset is not available and not registered in the deed registry, the asset was purchased on 3 July 1939.

The dwelling consists of a single story residential unit, constructed of plastered brick walls under a corrugated metal roof. The interior has standard fittings and finishes with tile and carpet floors. The house is equipped with rhino board and suspended ceilings, standard light fittings and steel window frames.

Dwelling 296

On erven 296 in Wepener

- Opening balance	210 000	210 000
- Fair value adjustment	60 000	-
	270 000	210 000

The cost price of the asset is not available and not registered in the deed registry, the asset was purchased on 3 July 1939.

Two single story residential units, constructed of plastered brick walls under a corrugated metal roof. The interior has standard fittings and finishes with novilon and carpet floors. The house is equipped with rhino board and suspended ceilings, standard light fittings and steel window frames.

Flats at 42 Hooge Street

On erven 315, 317 and 319 in Dewetsdorp

- Opening balance	1 800 000	1 800 000
- Fair value adjustment	(1 220 000)	-
	580 000	1 800 000

The cost price of the asset was R8,000, the assets were purchased on 8 October 1993 and 24 March 1994.

A townhouse complex situated on 42 Hooge street, Dewetsdorp. Complex consisting of 10 units. The demand for this type and quality of property in this specific area is low. The improvements have generally been well maintained and the stands are not fully utilized.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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8. Investment property (continued)

Details of valuation

The effective date of the revaluations was 30 June 2014. Revaluations were performed by an independent valuer, Raymond Taylor [Professional Associate Valuer Reg. No. 5916/1], of NID Valuers. NID Valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	103 678	95 670
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No direct expenditure had been incurred in the generation of rental revenue from investment property.

There are no restrictions on the remittance of revenue and proceeds of disposal for the investment property.

There are no contractual obligations to purchase, construct or develop investment property.

There are no contractual obligations for repairs, maintenance or enhancements.

9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	36 684 613	(27 808 207)	8 876 406	36 684 613	(26 729 704)	9 954 909
Work in progress	29 900 580	-	29 900 580	20 888 984	-	20 888 984
Infrastructure	431 958 911	(222 130 595)	209 828 316	424 957 298	(209 354 933)	215 602 365
Community	76 953 157	(38 715 418)	38 237 739	76 953 157	(36 457 305)	40 495 852
Other property, plant and equipment	10 911 808	(7 921 382)	2 990 426	10 992 516	(7 079 473)	3 913 043
Total	586 409 069	(296 575 602)	289 833 467	570 476 568	(279 621 415)	290 855 153

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Completed projects transferred and recognised	Depreciation	Impairment loss	Total
Buildings	9 954 909	-	-	(1 078 503)	-	8 876 406
Work in progress	20 888 984	16 013 210	(7 001 614)	-	-	29 900 580
Infrastructure	215 602 365	-	7 001 614	(12 775 663)	-	209 828 316
Community	40 495 852	-	-	(2 258 113)	-	38 237 739
Other property, plant and equipment	3 913 043	115 781	-	(848 629)	(189 769)	2 990 426
Total	290 855 153	16 128 991	-	(16 960 908)	(189 769)	289 833 467

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	10 722 240	319 169	-	(1 086 500)	9 954 909
Work in progress	5 994 138	14 894 846	-	-	20 888 984
Infrastructure	214 053 575	15 571 151	(373 379)	(13 648 982)	215 602 365
Community	42 839 997	-	-	(2 344 145)	40 495 852
Other property, plant and equipment	4 978 988	202 678	-	(1 268 623)	3 913 043
	278 588 938	30 987 844	(373 379)	(18 348 250)	290 855 153

Pledged as security

None of these assets were pledged as security.

Reconciliation of Work-in-Progress 2014

	Opening balance	Additions	Transfers	Total
Work in progress	20 888 985	16 013 210	(7 001 614)	29 900 581

Reconciliation of Work-in-Progress 2013

	Opening balance	Additions	Total
Work in progress	5 994 138	14 894 847	20 888 985

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The user of the financial statements should take note that the Van Stadensrus Sports stadium which is currently disclosed as Work in Progress within the asset categories of Naledi Local Municipality, could be subject to overstatement and possible impairment as and when the asset will be recognised as an addition. This is attributable due to possible over capitalising of the project as the first contractor had been replaced.

10. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	311 040	-	311 040	311 040	-	311 040

Reconciliation of intangible assets - 2014

	Opening balance	Total
Servitudes	311 040	311 040

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
10. Intangible assets (continued)		
Reconciliation of intangible assets - 2013		
	Opening balance	Total
Servitudes	311 040	311 040
Pledged as security		
None of these assets were pledged as security.		
Other information		
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.		
The useful life was reviewed and no events and circumstances were identified which does not support an indefinite useful life assessment.		
The intangible assets are deemed to be indefinite due to the nature of the asset.		
11. Other financial assets		
Designated at fair value		
Senwes Ltd shares	15 036	15 400
1455 shares @ R10.25 (2013: R10.58) published market value per share		
Senwesbel Ltd shares	12 265	11 150
2230 shares @ R5.50 (2013: R5.00) published market value per share		
OVK Holdings Ltd shares	35 729	22 139
3406 shares @ R10.49 (2013: R6.50) published market value per share		
OVK Operations Ltd shares	34 980	24 801
3273 shares @ R10.61 (2013: R7.50) published market value per share		
	98 010	73 490
Non-current assets		
Fair value	98 010	73 490
Valuation of financial assets		
12. Employee benefit obligations		
Non-Current liabilities		
Post- employment medical aid benefit	1 065 000	1 091 355
Long service award	1 692 000	1 477 681
	2 757 000	2 569 036
Current liabilities		
Post- employment medical aid benefit	144 000	133 645
Long service award	131 000	33 319
	275 000	166 964

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
12. Employee benefit obligations (continued)		
Amounts recognised in the statement of financial performance		
Current service cost	217 000	159 000
Finance cost	210 000	181 000
Actuarial loss	95 769	268 200
	522 769	608 200

Actuarial valuations have been obtained for the first time for the year ended 30 June 2014. The annual financial statements has been restated for this error. Refer to note 41, however this resulted in information not being available for 2011 and 2010. There are no plan assets and liabilities are unfunded.

Amounts for current and previous four periods are as follows:

	2014	2013	2012	2011	2010
Post employment medical aid benefit	1 209 000	1 225 000	1 159 000	-	-
Long service award benefit	1 823 000	1 511 000	1 122 000	-	-
	3 032 000	2 736 000	2 281 000	-	-

Post- employment medical aid benefit

Medical Aid Scheme Arrangements

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Arrangements

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

- (a) All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy to the maximum (CAP) amount of R3,618.04 (per month per member) for the period 1 July 2014 to 30 June 2015. The maximum (CAP) amount was R3,557.65 in the previous year.
- (b) The maximum subsidy is expected to increase at 50% of inflation.

Changes in the present value of the post - employment medical aid benefit obligation are as follows:

Opening balance	1 225 000	1 159 000
Benefits paid	(139 000)	(131 000)
Net expense recognised in the statement of financial performance	123 000	197 000
	1 209 000	1 225 000

Net expense of the post - employment medical aid benefit obligation recognised in the statement of financial performance

Interest cost	91 000	87 000
Actuarial loss	32 000	110 000
	123 000	197 000

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
12. Employee benefit obligations (continued)		
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	8,94 %	7,89 %
Consumer price inflation	7,05 %	6,14 %
Medical cost trend rates	8,05 %	7,14 %
Nett effective discount rate	0,82 %	0,70 %

Discount rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

The rate was therefore set as the yield of the R209 South African government bond as at the valuation date. The actual yield on the R209 bond was sourced from the RMB Global Markets' website on year end.

Medical aid inflation

The medical aid inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate inflation. We have derived the underlying future rate of consumer price index (CPI inflation) from the relationship between the current conventional government bond yields (R209) and current index-linked bond yields (R202).

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates increased for the last ten years show that registered medical aid schemes' contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstripped general inflation by 1% per annum over the foreseeable future.

Mortality rates

Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumptions was made about additional mortality or health care costs due to AIDS.

Spouses and dependants

Where necessary it was assumed that female spouses would be 5 years younger than their male spouses at retirement and vice versa.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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12. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	20% Mortality rate decrease	20% Mortality rate increase
Effect on the aggregate of the service cost and interest cost	113 000	93 000
Effect on post - employment medical aid benefit obligation	1 338 000	1 106 000
	1% Medical aid inflation decrease	1% Medical aid inflation increase
Effect on the aggregate of the service cost and interest cost	99 000	104 000
Effect on post - employment medical aid benefit obligation	1 181 000	1 231 000

Long service award benefit

Changes in the present value of the post - employment medical aid benefit obligation are as follows:

Opening balance	1 511 000	1 122 000
Benefits paid	(140 000)	(17 000)
Net expense recognised in the statement of financial performance	452 000	406 000
	1 823 000	1 511 000

Net expense of the post - employment medical aid benefit obligation recognised in the statement of financial performance

Current service cost	217 000	159 000
Interest cost	119 000	94 000
Actuarial (gains) losses	116 000	153 000
	452 000	406 000

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7,96 %	7,40 %
Consumer price inflation	6,33 %	5,66 %
Normal salary increase rate	7,33 %	6,66 %
Nett effective discount rate	0,59 %	0,69 %

Discount rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

The rate was therefore set as the yield of the R208 South African government bond as at the valuation date. The actual yield on the R208 bond was sourced from the RMB Global Markets' website on year end.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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12. Employee benefit obligations (continued)

Normal salary inflation

We have derived the underlying future rate of the consumer price index (CPI) from the relationship between the current conventional bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets' website on year end. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 1 July 2014 of 6.79%. The next salary increase was assumed to take place on 1 July 2015.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Age band	Promotional Increase
20 - 24	5 %
25 - 29	4 %
30 - 34	3 %
35 - 39	2 %
40 - 44	1 %
	15 %

Average retirement rate

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal retirement age

The normal retirement age (NORA) for all active employees was assumed to be 65 years.

Mortality rate

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal decreasements

The following table sets out the assumed rates of withdrawal from service:

Age band	Withdrawal rate - males	Withdrawal rate - females
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	1 %	1 %
60 +	- %	- %

Sensitivity analysis - Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

A twenty percentage point change in the assumed withdrawal rate trend would have the following effects:

	20% point increase	20% point decrease
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Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
12. Employee benefit obligations (continued)		
Total accrued liability	1 701 000	1 960 000
Current service cost	218 000	262 000
Interest cost	138 000	161 000

Sensitivity analysis - Normal salary inflation

The cost of the long service awards is dependant on the increase in the annual salaries paid to the employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

A one percentage point change in assumed normal salary inflation trends would have the following effects:

	1% point increase	1% point decrease
Total accrued liability	1 968 000	1 693 000
Current service cost	259 000	220 000
Interest cost	161 000	138 000

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Systems Improvement Grant	-	112 523
Expanded Public Works Programme	438 054	-
Department of Water Affairs	3 619 309	-
	4 057 363	112 523

Movement during the year

Balance at the beginning of the year	112 523	-
Additions during the year	23 338 900	20 963 000
Income recognition during the year	(19 282 158)	(20 850 477)
Unspent grants returned	(111 902)	-
	4 057 363	112 523

See note 21 for reconciliation of grants from National/Provincial Government.

14. Other financial liabilities

At amortised cost

Centlec loan	309 590	423 436
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The loan from Centlec is repayable in equal annual installments and interest is levied at 10% on capital amounts outstanding.

During the current and the prior period there has been no defaults on the repayment of the loan.

Non-current liabilities

At amortised cost	201 115	309 591
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Current liabilities

At amortised cost	108 475	113 845
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Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

15. Provisions

Reconciliation of landfill closure cost - 2014

	Opening Balance	Additions	Total
Dewetsdorp	7 329 568	454 183	7 783 751
Van Stadensrus	1 486 513	91 319	1 577 832
Wepener	2 609 442	161 006	2 770 448
	11 425 523	706 508	12 132 031

Reconciliation of landfill closure cost - 2013

	Opening Balance	Additions	Total
Dewetsdorp	6 877 382	452 186	7 329 568
Van Stadensrus	1 394 800	91 713	1 486 513
Wepener	2 448 091	161 351	2 609 442
	10 720 273	705 250	11 425 523

Environmental rehabilitation cost

In order to determine the rehabilitation cost for each site the Minimum Requirements (2nd Edition, 1998) from the Department of Water affairs and Forestry (DWAF) were used as a guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is unpermitted/unlicensed, the classification is assumed according to the volume of waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e. the factors that determine the classification of a licensed site.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
15. Provisions (continued)		
The closure of a landfill site, regardless if it is licensed/permitted or not, requires a closure license as well as rehabilitation. The Minimum Requirements states that "in order to close a landfill properly, however, closure must be preceded by rehabilitation to ensure that the site is environmentally acceptable". Due to the fact that the same requirements are set for the closure process for licensed/permitted and unlicensed/unpermitted sites, no distinction in the description of the process were made between licensed/permitted and unlicensed/unpermitted sites in the calculations. The actual cost are determined by calculating the volumes of excavations, material required and legal requirements according to the footprint of each individual site. For a new estimate the rates used for each item of work is based on current rates for similar activities. We compare recent rates for the items, which would include labour costs as priced by civil contractors and we can determine a good average to use in the calculations. Provision to obtain a closure license was therefore included in the estimate for each site. No disposal values were available and assumptions were made related to the population and average waste generation rates to estimate the waste volumes received per site. The was necessary to assume a classification according to the Minimum Requirements in order to determine the capping requirements. A contingent liability is raised for a possible penalty to be imposed for operating an unlicensed landfill site by the Department of Environmental Affairs. Refer to the note on contingent liabilities for the detail. The municipality have the following unlicensed landfill sites at year end: None of the sites under consideration are permitted/licensed: (a) Dewetsdorp (b) Van Stadensrus (c) Wepener		
16. Payables from exchange transactions		
Trade payables	6 894 055	17 578 695
Payments received in advanced (Centlec)	40 921	86 836
Payments received in advance (Naledi)	1 275 216	1 057 890
Accrued leave pay	2 166 409	1 894 383
13th Cheque	816 091	633 770
Sundry deposits	350	350
Suspense account	48 176	505 008
Centlec	12 697 190	7 301 534
Retentions	1 416 152	1 443 871
	25 354 560	30 502 337
17. Consumer deposits		
Electricity (Centlec and Naledi)	173 160	155 650
Water	395 668	405 033
	568 828	560 683
18. Revenue		
Service charges	26 283 300	24 267 023
Rental of facilities and equipment	361 655	318 711
Discount received	8 167 510	-
Other income	227 096	1 611 639
Interest received	121 612	258 982
Dividends received	3 263	3 061
Property rates	3 495 164	3 870 194
Government grants & subsidies	65 741 682	58 552 272
Public contributions and donations	1 245 936	2 203 663
	105 647 218	91 085 545

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
18. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	26 283 300	24 267 023
Rental of facilities and equipment	361 655	318 711
Discount received	8 167 510	-
Other income	227 096	1 611 639
Interest received	121 612	258 982
Dividends received	3 263	3 061
	35 164 436	26 459 416
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3 495 164	3 870 194
Transfer revenue		
Government grants & subsidies	65 741 682	58 552 272
Public contributions and donations	1 245 936	2 203 663
	70 482 782	64 626 129
19. Service charges		
Sale of electricity	15 458 225	13 575 279
Sale of water	6 062 691	6 398 297
Solid waste	3 824 271	3 660 732
Sewerage and sanitation charges	5 450 077	5 129 256
Water rebate	(964 491)	(1 176 027)
Solid waste rebate	(1 551 855)	(1 452 348)
Sewerage and sanitation rebate	(1 995 618)	(1 868 166)
	26 283 300	24 267 023

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
20. Property rates		
Rates received		
Residential	2 387 585	2 398 883
Commercial	228 134	124 729
State	26 308	1 095 821
Small holdings and farms	1 754 446	2 881 170
Less: Rebates	(901 309)	(2 630 409)
	3 495 164	3 870 194

Valuations

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2011. The new general valuation roll will be implemented on 01 July 2015.

Rates are levied on an annual basis with the final date for payment being 30 June 2014 .

The following information relates to the different categories:

Assessment Rates

Residential

All residential properties with a market value of less than the amount as annually determined by the municipality are exempted from paying rates. For the 2013/2014 financial year the maximum reduction is determined as R35 000.

The impermissible rates of R15 000 contemplated in terms of s 17(1)(h) of the Property Rates Act is included in the amount referred to above as annually determined by the municipality. The remaining R20 000 is an important part of the council's indigent policy and is aimed primarily at alleviating poverty. Tariffs for 2014 are R0.0085 (2013: R0.01166).

Retired and Disabled Persons Property Rates Rebate

For the 2013/2014 financial year the total monthly income and corresponding rebate is determined as follows:

R 0 to R2 500 per month - 100% rebate

R 2 501 to R 5 000 per month - 50% rebate

R 5 001 to R 8 000 per month - 20% rebate

Indigent owners and child headed families will receive a 100% rebate from property rates.

Business/Commercial

Tariffs for 2014 are R0.0085 (2013: R0.01166)

State - Owned (Government)

Ratio 1:2 - State owned properties, including all agricultural properties (farms) owned by any sphere of government, shall be levied at twice the rate of domestic properties.

State - Owned (Government Agriculture)

Ratio of 1:0.25 (75% rebate) on tariff of R0.0017 as promulgated by the Minister of Provincial and Local Government.

Agricultural - Normal

Standard rebate to all agricultural properties

Ratio of 1:0.25 (75% rebate) on tariff of R0.0085) as promulgated by the Minister of Provincial and Local Government

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
20. Property rates (continued)		
Additional rebate if qualified and applied for		
2.5% for the provision of accommodation in a permanent structure to farm workers and their dependants;		
2.5% if such residential properties are provided with potable water;		
2.5% if the farmer for the farm workers electrifies such residential properties;		
2.5% for the provision of land for burial to own farm workers and educational and recreational purposes to own farm workers as well as people from surrounding farms.		
		Value of Property
Residential		229 374 600
Commercial		33 212 000
State		186 224 000
Small holdings and farms		988 074 000
Community		6 004 000
		1 442 888 600

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
21. Government grants and subsidies		
Operating grants		
Equitable share	38 199 524	37 182 000
Financial Management Grant	1 650 000	1 500 000
Municipal Systems Improvement Grant	890 000	687 477
COGTA	5 720 000	720 000
	<u>46 459 524</u>	<u>40 089 477</u>
Capital grants		
Municipal Infrastructure Grant	16 295 621	16 962 795
Integrated National Electrification Programme	-	500 000
Expanded Public Works Programme	561 946	1 000 000
Department of Water Affairs	2 424 591	-
	<u>19 282 158</u>	<u>18 462 795</u>
	<u>65 741 682</u>	<u>58 552 272</u>
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	19 282 158	18 462 795
Unconditional grants received	46 459 524	40 089 477
	<u>65 741 682</u>	<u>58 552 272</u>
Equitable Share		
Equitable share received during the year	<u>38 199 524</u>	<u>37 182 000</u>
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	2 869 430
Current-year receipts	16 295 000	16 962 795
Conditions met - transferred to revenue	(16 295 000)	(16 962 795)
Other	-	(2 869 430)
	<u>-</u>	<u>-</u>
In terms of the Constitution, this grant is used to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.		
Municipal Systems Improvement Grant		
Balance unspent at beginning of year	112 523	170 362
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(890 000)	(687 477)
Unspent and returned to the National Revenue Fund	(112 523)	(170 362)
	<u>-</u>	<u>112 523</u>
Conditions still to be met - remain liabilities (see note 13).		
The unspent balance of the prior year was deducted from the equitable share allocation of the current financial year.		
In term of the constitution, this grant is used for building the capacity of the municipalities to implement sound institutional and governance systems required in terms of local government legislation.		

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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21. Government grants and subsidies (continued)

Expanded Public Works Program (EPWP)

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(561 946)	(1 000 000)
	438 054	-

Conditions still to be met - remain liabilities (see note 13). A request for roll-over was submitted and approved, the amount is committed and will be spend before 31 August 2014.

The EPWP is a nationwide programme covering all spheres of government and state-owned enterprises. The Programme provides an important avenue for labour absorption and income transfers to poor households in the short to medium-term. It is also a deliberate attempt by the public sector bodies to use expenditure on goods and services to create work opportunities for the unemployed.

Financial Management Grant

Balance unspent at beginning of year	-	529 043
Current-year receipts	1 650 000	1 500 000
Conditions met - transferred to revenue	(1 650 000)	(1 500 000)
Other	-	(529 043)
	-	-

In terms of the constitution, this grant is used to assist and support the implementation of the financial management reforms, attendance at accredited training sessions and capacity building programmes on financial management.

Integrated National Electrification Grant

Current-year receipts	-	500 000
Conditions met - transferred to revenue	-	(500 000)
	-	-

In terms of the constitution, this grant is for the refurbishment of critical infrastructure.

Department of Water Affairs

Current-year receipts	6 043 900	-
Conditions met - transferred to revenue	(2 424 591)	-
	3 619 309	-

Conditions still to be met - remain liabilities (see note 13). A request for roll-over was submitted and approved, the amount is committed and will be spend before 30 June 2015.

In terms of the constitution, this grant is for the drilling and maintaining of boreholes in the Naledi district.

COGTA

Current year receipts	5 720 000	720 000
Conditions met - transferred to revenue	(5 720 000)	(720 000)
	-	-

Financial assistance received from COGTA to pay Bloemwater account.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
22. Investment revenue		
Dividend revenue		
Unlisted financial assets - Local	3 263	3 061
Interest revenue		
Centlec	-	104 411
Cash and cash equivalents	121 612	154 571
	121 612	258 982
	124 875	262 043
23. Public contributions and donations		
Local Government (COGTA, National Treasury)	1 245 936	2 203 663
COGTA and National Treasury paid AGSA on behalf of Naledi Municipality in an attempt to reduce the audit fee.		
24. Rental income		
Premises		
Town hall	14 540	16 226
Houses	103 678	95 670
Vodacom and MTN	236 896	189 654
Town land	3 541	3 541
Camps	3 000	13 620
	361 655	318 711
25. Other income		
Other income	30 233	51 457
Sundry revenue	163 238	154 185
Centlec - other income	32 704	1 401 786
Fines	921	4 211
	227 096	1 611 639
26. Employee related costs		
Basic	15 770 480	15 143 610
FMG salaries	690 000	240 000
Contribution to medical aid, bargaining council, pension and provident fund	4 255 314	3 603 742
UIF	193 362	154 785
Wages	81 828	77 000
Skills development levy	207 774	180 391
Leave pay provision charge	272 025	413 523
Travel, motor car, accommodation, subsistence and other allowances	1 911 872	1 287 059
Overtime payments	1 315 471	729 738
13th Cheques	1 258 990	1 025 745
Acting allowances	140 449	310 702
Housing benefits and allowances	307 946	254 949
Current service cost	217 000	159 000
Other allowances	152 805	126 740
	26 775 316	23 706 984

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
26. Employee related costs (continued)		
Remuneration of Municipal Manager (Mr. Lefora QW)		
Annual remuneration	565 200	360 000
13th cheque and backpay	33 147	-
Subsistence and other allowances	-	2 640
Travel, motor car and other allowances	243 569	155 925
Contribution to medical aid and pension funds	148 188	93 871
Contributions to UIF, SDL Levy and Bargaining Council levies	-	6 132
	990 104	618 568

The Municipal Manager was appointed during November 2012.

Remuneration of the Chief Financial Officer (Mr. Moses TO)

Annual remuneration	483 811	455 557
13th cheque and backpay	25 680	21 000
Subsistence and other allowance	-	2 090
Travel, motor car and other allowances	228 404	193 278
Contribution to medical aid and pension funds	115 087	100 222
Contributions to UIF, SDL and Levy and Bargaining Council Levies	-	6 509
	852 982	778 656

Remuneration of acting director - Technical services (Mr. Tsekedi TM)

Annual Remuneration	157 201	219 739
13th cheque and backpay	19 650	18 359
Travel, motor car and other allowances	143 332	78 477
Contribution to medical aid and pension funds	53 888	69 169
Backpay	-	7 771
Subsistence and other allowances	-	129 977
Contributions to UIF, SDL Levy and Bargaining Council Levies	-	6 204
	374 071	529 696

The Area Manager of Wepener acted as Director Technical Services in the prior year and from the period July 2013 to February 2014.

Remuneration of acting director - Technical services (Mr. Mohapi LI)

Annual Remuneration	93 165	-
13th cheque and backpay	24 130	-
Travel, motor car and other allowances	59 720	-
Contribution to UIF , medical aid and pension funds	28 690	-
	205 705	-

The Environmental Health Practitioner acted as the Director Technical Services from the period March 2014 to May 2014.

Naledi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
26. Employee related costs (continued)		
Remuneration of director - Corporate services (Ms. Sigadi N)		
Annual Remuneration	470 372	446 247
13th cheque and backpay	24 665	28 728
Travel, motor car and other allowances	222 856	194 665
Contribution to medical aid and pension funds	111 902	98 174
Subsistence and other allowances	-	87 972
Contributions to UIF, SDL Levy and Bargaining Council Levies	-	6 798
	829 795	862 584

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

The Corporate services director was appointed in octboer 2011. The Corporate services director also acted as the municipal manager for the perior August to October 2012 included in above.

27. Remuneration of councillors

Executive mayor	460 308	458 701
Deputy Executive Mayor	141 791	-
Councillors	870 772	961 492
Travel, motor car and other allowances	492 675	506 560
	1 965 546	1 926 753

In-kind benefits

The Executive Mayor, Chief whip and Councillors are full-time. The Executive Mayor is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to the use of a Council provided vehicle for official duties and has one full-time bodyguard and a driver at the cost of the Council.

The councillor and public office bearer remuneration are within the Upper Limits as determined by Government Gazette 37281 of 29 January 2014.

Executive Mayor 2014	Basic Salary	Backpay	Travel, motor car and other allowances	Contribution to medical aid and pension funds	Total
Ms. Mahase M	447 471	12 837	154 511	17 704	632 523
Total	447 471	12 837	154 511	17 704	632 523
Deputy Executive Mayor 2014	Basic Salary	Backpay	Travel, motor car and other allowances	Employer contributions	Total
Mr. Tladi GM	133 478	8 312	45 800	76	187 666
Total	133 478	8 312	45 800	76	187 666

Naledi Local Municipality

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Figures in Rand		2014	2013		
27. Remuneration of councillors (continued)					
Executive Mayor 2013	Basic Salary	Backpay	Travel, motor car and other allowances	Employer contributions	Total
Ms. Mahase M	423 952	35 409	145 197	5 636	610 194
Total	423 952	35 409	145 197	5 636	610 194
	423 952	35 409	145 197	5 636	610 194
Deputy Executive Mayor 2013	Basic Salary	Backpay	Travel, motor car and other allowances	Employer contributions	Total
Mr. Tladi GM	127 079	17 116	42 914	36	187 145
Councillors 2014	Basic Salary	Backpay	Travel, motor car and other allowances	Contribution to medical aid and pension funds	Total
Mr. Haddad MG	134 078	3 846	57 646	76	195 646
Mr. Mahloko MD	134 078	6 745	46 350	76	187 249
Mr. Makitle J	134 078	5 787	46 214	76	186 155
Mr. Rakhunoane K	133 478	3 847	57 646	12 642	207 613
Mr. Sehloho ML	171 449	5 459	11 322	76	188 306
Mr. Seoko MM	134 078	3 847	42 356	76	180 357
	841 239	29 531	261 534	13 022	1 145 326
Councillors 2013	Basic Salary	Backpay	Travel, motor car and other allowances	Contribution to medical aid and pension funds	Total
Mr. Haddad MG	127 079	10 275	54 306	7 616	191 732
Mr. Mahloko MD	127 079	18 599	44 234	71	189 984
Mr. Makitle J	127 079	17 116	42 914	36	182 755
Mr. Rakhunoane K	127 079	10 275	54 306	7 616	199 277
Mr. Sehloho	127 079	12 895	42 474	36	182 484
Mr. Seoko MM	127 079	12 823	43 244	36	183 182
	762 474	81 983	281 478	15 411	1 129 414
28. Depreciation					
Property, plant and equipment				16 960 904	18 348 034
29. Impairment of assets					
Impairments					
Property, plant and equipment				189 768	-
- Assets which are no longer in use were impaired.					
Trade and other receivables				23 716 048	3 207 871
- Allowances for the irrecoverability of debts outstanding were estimated and recognised accordingly.					
				23 905 816	3 207 871

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
30. Finance costs		
Employee benefits	210 000	181 000
Finance leases	-	219 772
External loans	31 678	36 242
Other interest paid	1 308 927	1 670 471
	1 550 605	2 107 485
31. Repairs and maintenance		
Repairs and maintenance	2 271 984	3 031 844
32. Bulk purchases		
Electricity	15 485 041	15 296 811
Water	5 396 249	4 965 018
	20 881 290	20 261 829

Distribution losses incurred on water and electricity purchases:

2014	Total sales (units)	Less total purchases (units)	Loss (units)	% Loss on purchases (units)	Rand value of loss at purchase price
Electricity (kilowatt)	14 056 582	18 448 125	(4 391 543)	24 %	3 470 347
Water (kiloliters)	392 737	1 394 345	(1 001 608)	72 %	6 432 224
	14 449 319	19 842 470	(5 393 151)		9 902 571
2013	Total sales (units)	Less total purchases (units)	Loss (units)	% Loss on purchases (units)	Rand value of loss at purchase price
Electricity (kilowatt)	7 946 954	17 787 575	(9 840 621)	55 %	11 237 761
Water (kiloliters)	616 852	1 190 966	(574 114)	48 %	6 594 714
	8 563 806	18 978 541	(10 414 735)		17 832 475

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Figures in Rand	2014	2013
33. General expenses		
Audit fees	1 652 987	2 765 899
Advertising	212 409	192 676
Bank charges	66 647	65 221
Connection fees	212 598	353 670
Rental of vehicles	2 107 743	1 716 048
Consulting fees	217 234	220 120
Computer expenses	11 923	-
Legal expense	727 726	-
Expanded public works programme expenses	848 184	-
Entertainment	33 012	20 839
Admin fees	164 048	63 607
Electricity	2 968 655	480 082
Impairment of inventory	-	30 873
Special community programmes	726 809	869 130
Travel and subsistence	401 795	234 721
IDP	167 310	-
Household electrification	-	438 596
Fuel and oil	322 342	460 066
PMU expenditure	12 429	440 987
Insurance	1 482 087	1 100 842
Rental of equipment	504 123	83 309
Other expenses	847 892	882 586
Postage	151 957	136 611
Printing and stationery	234 131	163 302
Professional fees	1 583 986	171 615
Rehabilitation cost	706 507	705 251
License fees	93 165	504
Membership fees	965 500	514 647
Telephone cost	997 531	727 108
Training	126 257	251 687
Uniforms and overalls	121 186	39 929
Grant expenditure	2 499 809	2 213 712
	21 167 982	15 343 638
34. Operating lease		
Operating leases - as lessee (expense)		
- within one year	653 051	488 045
- in second to fifth year inclusive	945 402	908 621
	1 598 453	1 396 666
Operating leases - as lessor (income)		
- within one year	112 717	105 601
- in second to fifth year inclusive	343 052	455 769
	455 769	561 370

Operating lease payments represent rentals payable by the municipality for certain of its vehicles being rented from the Government Garage. Leases are negotiated for an average term of 5 years or less depending on the type of vehicle rented, rentals paid include a fixed and a variable cost factor depending on the amount of kilometers traveled during the period. Rent paid for computer equipment is month to month and could be cancelled with a month's notice by either party and is not disclosed as part of the commitments above. The escalation varies between 6.3% to 10% for operating leases as lessee.

Operating lease income represent rentals payable by Vodacom, MTN and Cell C for rental of municipal land for their towers. Leases are negotiated for an average term of 5 years or less. The escalation is 10% per annum. There are no contingent rentals or purchases options.

Naledi Local Municipality

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Figures in Rand	2014	2013
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34. Operating lease (continued)

Rental of houses are on a month to month contract and does not include any escalation clauses. Rental of facilities, apart from houses, are not on a contractual basis for the right to use facilities.

There are no restrictions imposed by the lease arrangement, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.

35. Fair value adjustments

Investment property	1 430 000	-
Other financial assets	(24 520)	-
	1 405 480	-

Naledi Local Municipality

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Figures in Rand	2014	2013
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36. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	98 010	-	98 010
Consumer receivables from exchange transactions	-	2 356 746	2 356 746
Consumer receivables from non-exchange transactions	-	1 059 773	1 059 773
Cash and cash equivalents	-	4 421 293	4 421 293
Receivables from exchange transactions	-	27 620	27 620
	98 010	7 865 432	7 963 442

Financial liabilities

	At amortised cost	Total
Other financial liabilities	309 590	309 590
Trade and other payables from exchange transactions	25 354 560	25 354 560
Consumer deposits	568 828	568 828
Unspent grants	4 057 363	4 057 363
	30 290 341	30 290 341

2013

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	73 490	-	73 490
Consumer receivables from exchange transactions	-	12 517 809	12 517 809
Consumer receivables from non-exchange transactions	-	3 603 621	3 603 621
Cash and cash equivalents	-	1 441 224	1 441 224
Receivables from exchange transactions	-	27 620	27 620
	73 490	17 590 274	17 663 764

Financial liabilities

	At amortised cost	Total
Other financial liabilities	423 436	423 436
Trade and other payables from exchange transactions	30 502 337	30 502 337
Consumer deposits	560 683	560 683
Unspent conditional grant	112 523	112 523
	31 598 979	31 598 979

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Figures in Rand	2014	2013
37. Cash generated from operations		
(Deficit) surplus	(11 333 474)	2 509 528
Adjustments for:		
Depreciation and amortisation	16 960 904	18 348 034
Gain on sale of assets and liabilities	-	373 378
Fair value adjustments	1 405 480	-
Impairment deficit	23 905 816	3 207 871
Movements in retirement benefit assets and liabilities	200 231	186 800
Movements in provisions	706 508	705 250
Water income provision	(554 188)	(73 251)
Other non-cash items	-	360 048
Actuarial Loss	95 769	268 200
Changes in working capital:		
Inventories	(31 220)	30 873
Consumer receivables from exchange	(9 469 081)	1 227 873
Consumer receivables from non-exchange	(987 867)	(3 603 621)
Receivables from non-exchange	127 266	(27 621)
Payables from exchange transactions	(5 147 776)	3 541 293
VAT	(608 447)	2 599 689
Unspent conditional grants and receipts	3 944 840	(3 456 312)
Consumer deposits	8 145	160 061
	19 222 906	26 358 093
38. Commitments		
Authorised expenditure		
Authorised operating expenditure		
• Operating activities	2 666 136	112 523
Authorised capital expenditure		
• Approved and contracted for	482 801	11 193 512
• Approved and not yet contracted for	7 200 740	9 384 060
	7 683 541	20 577 572

This committed expenditure relates to property and will be financed by available bank facilities, accumulated surpluses, existing cash resources and funds internally generated.

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Figures in Rand	2014	2013
39. Contingent assets / (Contingent liabilities)		
MIIB - (Illegal contract)		
Opening balance	(6 000 000)	(8 515 184)
Adjustments made	-	2 515 184
	(6 000 000)	(6 000 000)
Tankiso Griesel - (Unfair dismissal)		
Opening balance	(600 000)	(399 755)
Adjustments made	-	(200 245)
	(600 000)	(600 000)
Landfill sites - (Licences)		
Opening balance	(10 000 000)	(10 000 000)
T Nchejane - (Overpayment of account)		
Opening balance	-	10 520
Payments received	-	(10 520)
	-	-
Kovsie Country Lodge CC - (Outstanding account)		
Opening balance	(9 032)	(9 032)
Payments made	9 032	-
	-	(9 032)
Das Ram Boerdery/ CB Kotze/ FP Strauss - (Damages)		
Current year contingencies	(2 893 119)	-
Ngalo & 22 others - (Unfair dismissal)		
Opening balance	-	-
Current year contingencies	(1 000 000)	-
	(1 000 000)	-
Ngalo & 22 others - (Interpretation of collective agreement)		
Opening balance	(150 000)	(150 000)
Additional contingencies	(3 850 000)	-
	(4 000 000)	(150 000)
E.H van den Berg - (Damages)		
Additional contingencies	(624 105)	-

MIIB - The Municipality entered into an agreement for the installation of a SAP financial system. The matter has been taken to court because the Municipality believes that the contract was entered into illegally because the supply chain process were not followed. The expected date of finalisation is during the 2015 financial year.

Tankiso Griesel - The Municipality is in a court case with its former employee for an alleged unfair dismissal. The matter is in Labour Court of South Africa. If the Municipality loses they are to pay back the salary of the employees retrospectively from the date of termination of employment. The expected date of finalisation is during the 2015 financial year.

Landfill sites Licences - The municipality managed three (3) landfill sites without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community.

Naledi Local Municipality

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Figures in Rand	2014	2013
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39. Contingent assets / (Contingent liabilities) (continued)

T Nchejane - An amount was incorrectly paid to him. He however repaid the amount in the 2013 financial year.

Kovsie Country Lodge CC - The case was settled in full during the 2014 financial year.

Das Ram Boerdery/ CB Kotze/ FP Strauss - The plaintiffs are claiming damages from the municipality due to a field fire started by the municipality. The expected date of finalisation is uncertain.

Ngalo & 22 others (Unfair dismissal) - The Municipality is in a court case with its former employees for an alleged unfair dismissals. The matter is in Labour Court of South Africa. If the Municipality loses they are to pay back the salary of the employees retrospectively from the date of termination of employment. The expected date of finalisation is during the 2017 financial year.

Ngalo & 22 others - (Interpretation of collective agreement) - There is a dispute over the SALGBC interpretation of the collective agreement. The expected date of finalisation is during the 2017 financial year.

E.H van den Berg - He is claiming damages from the municipality due to a field fire started by the municipality. The expected date of finalisation is expected to be in the 2015 financial year.

N S Mgudlwa - Unauthorised use of the Municipality vehicle by the employee and had an accident with the Municipality's vehicle. The employee resigned during the 2014 financial year. The case was not pursued and she repaid the vehicle on her own cost.

40. Related parties

Relationships

Accounting Officer

Councillors

Members of key management

Refer to Accounting Officer's report.

Refer to note on remuneration of councillors

Refer to note on employee cost.

No related party transactions were incurred during the year under review.

41. Prior period errors

The prior year has been amended to account for the following prior period errors.

Below is a description of each individual prior period error followed by a summary of the total effect of the prior period errors on the amounts previously disclosed.

1. Suspense accounts

The salary suspense account was cleared in the current financial year for which the transactions related to the 2012/2013 financial year.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position

Payables from exchange transactions

(280 473)

Adjustments affecting the statement of financial performance

Personnel

365 746

Remuneration of councillors

(85 273)

280 473

2. Bulk purchases

Two bulk purchase invoices were captured in the 2013/2014 financial year and should have been recorded in the 2012/2013 financial year. Interest was also included in the bulk purchases recorded.

Naledi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
41. Prior period errors (continued)		
The effect of these adjustments on the prior year are as follows:		
Adjustments affecting the statement of financial position		
Payables from exchange transactions		(574 218)
Adjustments affecting the statement of financial performance		
Bulk purchases		379 260
Finance cost		194 958
		574 218
3. Employee benefit obligation		
The 2013/2014 financial year is the first year that the municipality made assumption for employee benefit obligations and recognised the liability. These valuations were performed by ZAQ.		
The effect of this adjustment on the prior year is as follows:		
Adjustment against the opening accumulated surplus / (deficit)		2 281 000
Adjustments affecting the statement of financial position		
Employee benefit obligation		(2 736 000)
Adjustments affecting the statement of financial performance		
Actuarial (gain) / loss		268 200
Finance cost		181 000
Personnel		5 800
		455 000
4. Consumer receivables were not correctly split between exchange and non exchange receivables.		
During the 2013/2014 financial year the municipality did not separately account for exchange and non exchange consumer receivables. A retrospective correction was made to the prior year.		
The effect of these adjustments on the prior year are as follows:		
Adjustments affecting the statement of financial position		
Consumer receivables from exchange transaction		3 950 920
Consumer receivables from non exchange transaction		(3 950 920)
		-
5. Closure cost for landfill sites		
The municipality obtain a closure valuation report for the landfill sites at all 3 towns. The liability was recorded for the first time during the 2013/2014 financial year.		
The effect of these adjustments on the prior year are as follows:		
Adjustments affecting the statement of financial position		
Provisions		(11 425 524)
Property, plant and equipment	-	10 720 270
		(705 254)
Adjustments affecting the statement of financial performance		
General expenditure		705 254

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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41. Prior period errors (continued)

6. Retentions

The retention amount was incorrectly captured during the 2011/2012 financial year. The amount was corrected in the 2013/2014 financial year.

The effect of these adjustments on the prior year are as follows:

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
41. Prior period errors (continued)		
Adjustment against the opening accumulated surplus / (deficit)		(144 158)
Adjustments affecting the statement of financial position		
Payables from exchange transactions		144 158
7. Work in progress		
The opening balance of the 2011/2012 financial year was incorrect. The amount was corrected in the current year.		
The effect of these adjustments on the prior year are as follows:		
Adjustment against the opening accumulated surplus / (deficit)		1 998 278
Adjustments affecting the statement of financial position		
Property, plant and equipment		(1 998 278)
8. VAT		
Input VAT was claimed on qualifying expenditure during the year and accordingly claimed from SARS, these transactions were however not recorded in the financial statements.		
The effect of the adjustment on the prior year is as follows:		
Adjustment against the opening accumulated surplus / (deficit)		(335 272)
Adjustments affecting the statement of financial position		
VAT		335 272
9. Allowance for impairment loss		
The allowance for impairment loss for consumer receivables were recalculated and the necessary correction were made.		
The effect of this adjustment on the prior year is as follows:		
Adjustments affecting the statement of financial position		
Consumer receivables from exchange transactions		(3 207 871)
Adjustments affecting the statement of financial performance		
Impairment loss		3 207 871
10. Service charges incorrectly levied		
Service charges were charged against their own municipal property. These amounts have been corrected and reversed in the current financial year.		
The effect of this adjustment on the prior year is as follows:		
Adjustments affecting the statement of financial position		
Consumer receivables from exchange transactions		(68 502)
Consumer receivables from non-exchange transactions		(83 214)

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
41. Prior period errors (continued)		
VAT		18 268
		<u>(133 448)</u>
Adjustments affecting the statement of financial performance		
Other income		2 963
Property rates		72 995
Service charges		57 490
		<u>133 448</u>
11. Consumer receivables with credit balances		
The consumer receivables with credit balances at year end were transferred to payables.		
The effect of this adjustment on the prior year is as follows:		
Adjustments affecting the statement of financial position		
Payables from exchange transaction		(183 098)
Consumer receivables from exchange transactions		21 421
Consumer receivables from non-exchange transactions		161 677
		<u>-</u>
12. Water estimates		
The municipality calculated the amount of water income for meters not read on a monthly basis and meters that are read before year end.		
The effect of this adjustment on the prior year is as follows:		
Adjustment against the opening accumulated surplus / (deficit)		<u>(129 861)</u>
Adjustments affecting the statement of financial position		
Consumer receivables from exchange transactions		<u>203 112</u>
Adjustments affecting the statement of financial performance		
Service charges		<u>(73 251)</u>
13. Centlec loan		
The Centlec opening balance in the 2011/2012 financial year was incorrect, the opening balances was corrected during the 2013/2014 financial year.		
The effect of this adjustment on the prior year is as follows:		
Adjustment against the opening accumulated surplus / (deficit)		<u>(50 286)</u>
Adjustments affecting the statement of financial position		
Payables from exchange transactions		<u>50 286</u>
14. Electricity sales		

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
41. Prior period errors (continued)		
The amount of electricity sales recorded in the 2012/2013 financial year was incorrect. The amount was however corrected in the 2013/2014 financial year.		
The effect of this adjustment on the prior year is as follows:		
Adjustments affecting the statement of financial position		
Payables from exchange transaction		395 105
Adjustments affecting the statement of financial performance		
Service charges		(395 105)
 15. VAT		
The opening balance of the VAT account was incorrect as at 30 June 2012. This balance was corrected in the current financial year.		
The effect of this adjustment on the prior year is as follows:		
Adjustment against the opening accumulated surplus / (deficit)		114 661
 Adjustments affecting the statement of financial position		
VAT		(114 661)
 16. Infrastructure and community assets		
The depreciation and accumulated depreciation of infrastructure and community assets were incorrectly calculated as it did not take into account residual values and as a result of remaining useful lives being incorrectly calculated. These calculation have been corrected in the current financial year.		
The effect of this adjustment on the prior year is as follows:		
Adjustment against accumulated surplus/(deficit)		(15 910 133)
Adjustments effecting the statement of financial position		
Property, plant and equipment		15 893 331
Adjustments effecting the statement of financial performance		
Depreciation		(7 291)
Loss on disposal of asset and liabilities		24 093
		16 802
 17. Disclosure Note Restatements		

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
41. Prior period errors (continued)		
The following disclosure notes have been restated		
17.1 Commitments		
The Commitments had been understated in the prior year with an amount of R1 440 739. The disclosure amendment was made in the current financial year.		
17.2 Operating Leases		
The disclosure for Operating Leases was not disclosed in the prior year. The disclosure amendment was made in the current financial year. Refer to note 34.		
17.3 Contingent Liabilities		
Contingent Liabilities had been disclosed improperly in the prior year with below mentioned amounts. The disclosure amendment was made in the current financial year.		
- MiiB overstated with R2 515 184		
- Griesel understated with R200 245		
- Ngalo and 21 others understated with R1 000 000		
- Kovsie Country Lodge CC understated with R1 488		
17.4 Fruitless and wasteful -, Irregular -, and Unauthorised expenditure		
Various restatements had been processed after investigations of payments made within the municipality. The disclosure amendments of R4 365 916 were made in the current financial year.		
18. Trade payables		
It had been established that in the current financial year that expenditures had contained items pertaining to the prior financial year. A retrospective correction was made to the prior year.		
The effect of this adjustment on the prior year is as follows:		
Adjustments affecting the statement of financial position		
Payables from exchange transactions		(1 074 089)
Adjustments affecting the statement of financial performance		
General expenditure		768 089
Repairs and maintenance		306 000
		1 074 089
19. Moveable assets		
During the current financial year it had been determined that certain assets had not been included in the asset register with purchase date in accordance with GRAP.		
The effect of this adjustment on the prior year is as follows		
Adjustment against accumulated surplus/ (deficit)		(84 551)
Adjustments affecting the statement of financial position		
Property, plant and equipment		63 161
Adjustments affecting the statement of financial performance		

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
41. Prior period errors (continued)		
Depreciation		21 390
20. Moveable assets		
Assets pertaining to a service provider had been incorrectly included in the asset register of the municipality, the opening balances was corrected during the current financial year.		
The effect of this adjustment on the prior year is as follows:		
Adjustment against accumulated surplus/ (deficit)		218
Adjustment affecting the statement of financial position		
Property, plant and equipment		(145)
Adjustments affecting the statement of financial performance		
Depreciation		(73)
21. Overpayment incorrectly classified		
A overpayment on expenditure prior to 2012/2013 had incorrectly been classified as expenditure and not as an account receivable.		
Adjustments against accumulated surplus / (deficit)		(127 265)
Adjustment affecting the statement of financial position		
Receivables from non exchange transactions		127 265
22. Prepayment of future liabilities		
Incorrect payments had been received from Vodacom and recognised as revenue. Vodacom has indicated that these payments can remain within the municipality and can be utilised against future expenditure. The adjustment was made in the current financial year.		
Adjustments affecting the statement of financial position		
Payables from exchange transactions		(92 879)
Adjustments affecting the statement of financial performance		
Other Income		92 879
23. Consolidation of service provider		
In the prior year the municipality had accounted own electricity usage as revenue. The correction was made in the current financial year.		
The effect of the correction on the prior year will be as follows:		
Adjustments affecting the statement of financial performance		
Service charges		(2 719 758)
General expenditure		2 719 758
		-

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Notes to the Annual Financial Statements

Figures in Rand	2014		2013	
41. Prior period errors (continued)				
Statement of Financial Performance for the year ended	Balance as previously reported	Prior period error	Reclassified	Restated balance
Revenue				
Service charges	(26 575 914)	2 308 891	-	(24 267 023)
Rental of facilities and equipment	(318 711)	-	-	(318 711)
Other income	(1 707 482)	95 843	-	(1 611 639)
Interest received - investment	(258 982)	-	-	(258 982)
Dividends received	(3 061)	-	-	(3 061)
Property rates	(6 573 598)	72 995	2 630 409	(3 870 194)
Government grants and subsidies	(58 552 272)	-	-	(58 552 272)
Public contribution and donations	(2 203 663)	-	-	(2 203 663)
Total revenue	<u>(96 193 683)</u>	<u>2 477 729</u>	<u>2 630 409</u>	<u>(91 085 545)</u>
Expenditure				
Personnel	23 404 100	371 546	(68 662)	23 706 984
Remuneration of councillors	1 943 364	(85 273)	68 662	1 926 753
Depreciation	18 334 008	14 026	-	18 348 034
Impairment loss	-	3 207 871	-	3 207 871
Finance cost	1 731 528	375 958	-	2 107 486
Repairs and maintenance	2 725 844	306 000	-	3 031 844
Bulk purchases	19 882 569	379 261	-	20 261 830
General expenditure	19 220 462	(1 246 417)	(2 630 409)	15 343 636
Total expenditure	<u>87 241 875</u>	<u>3 322 972</u>	<u>(2 630 409)</u>	<u>87 934 438</u>
Actuarial (gain) / loss	-	268 200	-	268 200
Gain/ (loss) on disposal of assets and liabilities	349 288	24 091	-	373 379
Surplus / (deficit) for the year	<u>349 288</u>	<u>292 291</u>	<u>-</u>	<u>641 579</u>

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Figures in Rand	2014		2013	
41. Prior period errors (continued)				
Statement of Financial Position	Balance as previously reported	Prior period error	Reclassified	Restated balance
Assets				
Current Assets				
Inventories	49 787	-	-	49 787
Consumer non-exchange	-	(3 872 457)	7 476 078	3 603 621
Receivable non-exchange	-	127 265	-	127 265
VAT receivable	354 664	238 879	-	593 543
Receivables from exchange transactions	19 094 807	899 080	(7 476 078)	12 517 809
Cash and cash equivalents	1 441 224	-	-	1 441 224
Receivables from non-exchange transactions	-	-	27 620	27 620
Total current assets	20 940 482	(2 607 233)	27 620	18 360 869
Non-current Assets				
Investment property	2 520 000	-	-	2 520 000
Property, plant and equipment	266 176 809	13 958 072	-	280 134 881
Intangible assets	311 040	-	-	311 040
Other financial assets	73 490	-	-	73 490
Total non-current assets	269 081 339	13 958 072	-	283 039 411
Liabilities				
Current Liabilities				
Payables from exchange transactions	(28 859 503)	(1 615 208)	(27 620)	(30 502 331)
Retirement benefit obligation	-	(166 964)	-	(166 964)
Unspent conditional grants and receipts	(112 523)	-	-	(112 523)
Other financial liabilities	(113 845)	-	-	(113 845)
Consumer deposits	(560 683)	-	-	(560 683)
Total current liabilities	(29 646 554)	(1 782 172)	(27 620)	(31 456 346)
Non-current Liabilities				
Provisions	-	(11 425 524)	-	(11 425 524)
Retirement benefit obligation	-	(2 569 036)	-	(2 569 036)
Total non-current liabilities	-	(13 994 560)	-	(13 994 560)
Net Assets				
Accumulated surplus - Opening balance	(251 463 156)	(12 387 370)	-	(263 850 526)
Surplus / (deficit) for the year	(8 602 520)	6 092 993	-	(2 509 527)
Total net assets	(260 065 676)	(6 294 377)	-	(266 360 053)

42. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: credit, liquidity and market risk.

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42. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	108 475	201 115	-	-
Payables from exchange transactions	25 354 560	-	-	-
At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	113 845	108 475	201 116	-
Payables from exchange transactions	30 502 337	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets exposed to credit risk at year end were as follows:

Receivables from exchange transactions	41 113 740	31 397 917
Receivables from non-exchange transactions	8 570 028	7 709 427
Cash and cash equivalents	4 421 293	1 441 224
Other financial assets	98 010	73 490

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets or liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

43. Going concern

We draw attention to the fact that at 30 June 2014, the municipality had accumulated surplus of R 255 026 581 and that the municipality's total assets exceed its liabilities by R 255 026 581.

There has been a significant increase in the allowance for doubtful debt for receivables, significant water losses and the current liabilities exceed the current assets. A loss has been realised in the current financial year. However, the municipality will continue to receive grants from government as published in the DORA for the ongoing operations, a trade receivable data cleansing and collection process will be initiated which will result in revenue enhancement and improvement in debt collection. In addition the municipality should be able to operate within its overdraft that is available and up to date unused. The account officer is not aware of any reason why the overdraft facility would not be extended.

Therefore the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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43. Going concern (continued)

44. Events after the reporting date

Management is not aware of any events that happened after the reporting date that requires disclosure.

45. Unauthorised expenditure

Opening balance	69 714 462	69 192 615
Incurred during the current year	33 154 000	521 847
	102 868 462	69 714 462

Council are in the process of investigating the prior year's unauthorised expenditure.

46. Fruitless and wasteful expenditure

Opening balance	4 244 236	2 428 553
Fruitless and wasteful expenditure incurred during the year	1 255 466	1 815 683
	5 499 702	4 244 236

Council are in the process of investigating the prior year's unauthorised expenditure. The current and prior year fruitless and wasteful expenditure was mostly incurred due to budget constraints.

Interest and penalties were incurred on the following overdue accounts for the current and prior year:

Fruitless and wasteful expenditure - current year

Auditor General	6 085	20 973
Bloemwater	1 174 732	1 758 082
Coetzee werkswinkel	-	8
Compensation Fund	-	14 818
Eskom	702	1 366
OVK	478	939
SARS	-	17 283
UOVS	1 534	-
Telkom	2 302	2 214
Department of Roads and Transport	47 312	-
Government Garage	22 321	-
	1 255 466	1 815 683

47. Irregular expenditure

Opening balance	11 733 023	1 394 175
Irregular Expenditure - current year	13 882 820	-
Irregular expenditure incurred during the year	-	10 338 848
	25 615 843	11 733 023

Analysis of expenditure awaiting condonation per age classification

Current year	13 882 820	10 338 848
Prior years	11 733 023	1 394 175
	25 615 843	11 733 023

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47. Irregular expenditure (continued)

Details of irregular expenditure condoned - Current year

Deviations from normal supply chain procedures

Price: R2 000 to R10 000

Anta Boga Hotel	7 840
AT Mpiti	2 600
Lethlaka Communication	7 871
Matshepang Trading	3 600
Media 24	2 052
Peermont Metcourt	4 860
Phumela Guest House	5 220
Protea Hotel	2 148
Seipone News Time	5 600
Thokoa Trading	4 700

Price: R10 000 to R30 000

AT Mpiti	11 700
Hilton Hotel	14 720
Imfo	11 633
Lambons	13 824
Lethlaka Communication	14 897
Phomane Transport	20 900
Protea Hotel	15 283
Qibing Trading	10 634
The New Age	28 318
Xhariep Independent	20 500

Price: R30 000 and above

Lethlaka Communication	37 047
Seipone News Time	47 390
Xhariep Independent	38 000
Yes Media	199 500
Waltons (Pty) Ltd	41 894
Bella Mabandla Win C	2 000 592
Blue Rain Trading 40	1 169 752
Brighter Thought	41 480
Knowledge Expertise Training	7 193 871
Koaho Civil Contract	3 300 606
Pro Construction	176 519

14 455 551

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47. Irregular expenditure (continued)

Details of irregular expenditure condoned - Prior year

Deviations from normal supply chain procedures

Price: R2 000 to R10 000

Afro Villa	6 300
Agri Aqua Solutions	2 120
B Khamali	7 400
Dewetsdorp slaghuis	2 063
Gold rest	2 040
Holiday Inn Express	7 533
Jababtha Paper and Stationery	8 279
JC Grens Motors	4 685
Kopannokeng	2 676
Letlaka communications	9 208
Lithotech	3 021
Masutsa	3 000
Monte Christo Country Lodge	2 450
Network & Computing Consultant (NCC)	9 701
Orion Hotel	3 062
PA Lumisi	3 800
Protea Hotel Karridine	4 794
Protea Hotel OR Tambo	4 141
Riverside Hotel & Spa	5 400
SAN Parks (Golden Hotel)	8 595
Seipone News	5 600
TS Nchejane	6 000
Wepener Drukkers	5 725
Xerox (Bytes Technology)	2 070

Price: R10 000 to R30 000

AS de Jonge	20 700
BSCOM General Trading	29 433
CHH Knauff	29 548
Delsie Nursery	25 000
Iponeng Catering	14 250
Kevcor	24 422
Kevcor	16 039
Mega Works Enterprise	19 800
Much Asphalt	14 000
Multitech Corporation	10 960
OVK	26 418
OVK	11 459
Riverside Hotel & Spa	10 800
SAPO	14 628
Seipone News	11 200
The New Age	22 846
Thepa Trading	27 588
Xhariep Independent	13 500

Price: R30 000 and above

Botra Bus Service	41 500
LC Power Pumps	58 140
Letlaka Communications	43 543
Lithotech	31 488
Maximum Profit	95 553
Much Asphalt	42 000
OVK	148 914
Seipone News	37 698
The New Age	31 738
TNA Media	86 625
Xhariep Independent	42 000
Amalgmated engineering solutions	792 355

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47. Irregular expenditure (continued)

Bella Mabandla Win C	632 023
Dovetail construction	287 913
Knowledge Expertise Training	3 704 449
Koaho Civil Contract	1 062 868
Lillie Sales and Services	465 731
Nkhoathi Trading and Projects	319 169
Pro Construction	1 580 887
Shitolo waste management	372 000
	10 338 848

No losses has been recovered during the financial year due to irregular expenditure. The municipality did not pursue any criminal or disciplinary hearings due to losses as no criminal or fraudulent activities were identified.

An investigation has been lodged in regards to the expenditures incurred in the building of the sports facility in Van Stadensrus as possible irregular expenditure might have been incurred.

48. Discount received

Discount received per supplier

Bloemwater	8 167 510	-
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49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	545 387	95 387
Current year subscription / fee	500 000	850 000
Other related expenditure	15 500	19 260
Amount paid - current year	(465 500)	(419 260)
Amount paid - previous years	(95 387)	-
	500 000	545 387

Material losses through criminal conduct

No material losses through criminal conduct were reported.

Audit fees

Opening balance	(1 170 836)	-
Current year subscription / fee	2 726 423	3 145 116
Interest	1 831	21 130
Amount paid - current year	(1 304 992)	(4 337 082)
	252 426	(1 170 836)

PAYE and UIF

Current year subscription / fee	2 872 763	2 464 136
Amount paid - current year	(2 710 459)	(2 464 136)
	162 304	-

Pension and medical aid deductions

Current year subscription / fee	6 113 652	4 837 408
Amount paid - current year	(6 101 746)	(4 837 408)
	11 906	-

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	4 994 815	3 734 505
VAT payable	(3 792 818)	(3 140 955)
	1 201 997	593 550

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. Haddad MG	1 224	-	1 224
Ms. Mahase M	422	6 671	7 093
Mr. Mahloko MD	422	5 300	5 722
Mr. Makitle J	269	3 012	3 281
Mr. Rakhunoane K	848	4 074	4 922
Ms. Sehloho (Molise) ML	200	1 675	1 875
Mr. Seoko MM	422	6 020	6 442
Mr. Tladi GM	65	533	598
	3 872	27 285	31 157
30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. Haddad MG	229	-	229
Ms. Mahase M	511	4 280	4 791
Mr. Mahloko MD	399	4 280	4 679
Mr. Makitle J	62	2 573	2 635
Mr. Rakhunoane K	184	2 507	2 691
Ms. Sehloho (Molise) ML	126	948	1 074
Mr. Seoko MM	399	4 356	4 755
Mr. Tladi GM	62	276	338
	1 972	19 220	21 192

During the year the following Councillors had arrear accounts outstanding for more than 90 days.

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Refer to the Irregular expenditure note for a comprehensive list disclosed.

51. Budget differences

Material differences between budget and actual amounts

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51. Budget differences (continued)

X1: The decrease in service charges are mainly attributable to the municipality's inability to properly account for distribution losses on bulk water purchases due to excessive water leakages emanating from inadequate budgeting for repairs and maintenance resulting in potential revenue being forgone; migratory patterns along the Lesotho border which is directly affected by the provision of services to foreigners who do not qualify as indigents; and inability to collect more revenues as a result of high unemployment rate and an inadequate and/or lack of sustainable economic activities. The service provider for electricity, Centlec, had reported distribution losses of 38.92% which also contributed to a lower service charges amount.

X2: During the current financial period the municipality became aware that they had incorrectly accounted for rental of facility and equipment income on inactive accounts. This fact had not been known during budgetary proceedings.

X3: During the current financial period Naledi Local Municipality had entered into discussions with Bloemwater as to the long outstanding disputes emanating from prior years. The municipality and Bloemwater had finally reached consensus and agreed to certain conditions that had to be met by Naledi to receive the intended discount/write off of outstanding capital and finance charges. During budget proceedings the negotiations had not been finalised and it had not been clear as to whether any write off or discount would be received.

X4: Inaccurate assumptions used during the budget process.

X5: During budget proceedings the municipality had taken into consideration only the interest that would be derived from investments, but not from the secondary and the primary bank accounts on funds available.

X6: Estimations for dividends had been based on trends from the 2011/2012 to the 2012/2013 financial years as significant increases in dividend income had been experienced. Due to economic pressure it is presumed that earnings had not been as expected and the municipality had overestimated dividend income.

X7: During the financial year the municipality had discovered that they had inadvertently been charging themselves property rates and other items. This had been corrected and led to a decrease in revenue for property rates.

X8: Fines are issued by the Department of Roads and Transport and the Police. Therefore the budgeted amount is based on historical trends and is based on highly uncertain estimations.

X9: During the current financial year Naledi Local Municipality had entered into discussions with Bloemwater as to the long outstanding disputes emanating from prior years. The municipality and Bloemwater had finally reached consensus and agreed to certain conditions that had to be met by Naledi to receive the intended discounts/write off of outstanding capital and finance charges. During budget proceedings the negotiations had not been finalised and it had not been clear as to whether any write off or discount would be received. The amount for the impairment of the capital debt amounting to R5 000 000 had been recognized as a grant as it had been given in accordance with the provisions of section 43(1) - (6) of the Public Finance Management Act, 1999 read with Treasury Regulation 6.3, for the financial assistance. Naledi Local Municipality had complied and met the conditions of the arrangement and revenue was recognised thereon.

X10: During budgetary proceedings consideration had not been given to projects concluding earlier than expected.

X11: Wage increases for municipal staff continue to exceed consumer inflation. The municipality intended to fill all the vacancies e.g. within the finance department, but due to market related salaries of the vacancies, cost reprioritization and cash management strategy the municipality was unable to fill the positions.

X12: Due to budget constraints no transfer payments were done.

X13: The amount for depreciation and amortisation for budget purposes had been made through estimations. The municipality had not foreseen the degrading and wear and tear of assets to the extent that had been identified through physical verification and annual evaluation of residual value and remaining useful life. Ageing and poorly maintained water-, roads- and infrastructure, cash flow eliminations and declining cash reserves of the municipality, has contributed to certain assets not being properly maintained which affected residual value, remaining useful life and hence affecting write off policies.

X14: As discussed per above, Naledi Local Municipality and Bloemwater had been in a dispute regarding long outstanding capital debt and interest compounding thereon. The municipality had included the outstanding amounts owed in bulk purchases.

X15: The municipality has been under-budgeting for debt impairment over the past years, and during the budget bilateral with the Provincial Treasury, it was brought to the attention of the municipality that the item should be reasonably budgeted. In responding, for the budget year 2013/2014, the municipality is currently collecting approximately 10% from outstanding

Naledi Local Municipality

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51. Budget differences (continued)

debtors; the implementation of an effective revenue management strategy will assist the municipality to increase its recovery rate to at least 50% (i.e. conservative figure subject to realistic socio-economic imperatives affecting the area). Due to system failure in 2012/2013 it had been deemed necessary not to impair debt for the 2013/2014 financial year as accurate data for the entire 12 month period, pertaining to age of debtors, ending 30 June 2013 is not available. The allowance for impairment of receivables had been revaluated and implemented to reflect that only approximately 9% of all outstanding debtors are received. The implementation of an effective revenue management strategy will be implemented in the 2014/2015 financial year.

X16: Bulk purchases are directly influenced by the purchase of water from Bloemwater. The outstanding amounts owed and the annual price increases had been factored in the budget appropriation and are directly influencing the revenue provisions. The expenditure relatively caters for distribution losses on water. As per discussion above, of the outstanding capital debt and interest had been written off by Bloemwater, therefore less expenditure had been incurred.

X17: Due to cash flow limitations and declining cash reserves of the municipality various campaigns had been undertaken to reduce costs within the municipality.

X18: During budgetary proceedings the municipality did not anticipate a change in the fair value of investment properties. The property had been revalued as to comply with the necessary requirements of GRAP during the 2013/2014 financial year and the property value had been adjusted downwards. A similar valuation had not been performed in the prior year leading to a larger amount of fair value adjustment.

X19: During budgetary proceedings the municipality had not complied with the requirements of GRAP in terms of valuations of the defined benefit plans, etc. With preparations of the annual financial statements a valuation was performed and an actuarial loss was recognised.